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DEPT PLS PASS USTR BHARMAN AND MLATTIMER; GENEVA FOR WTO MISSION

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SUBJECT: TRADE MINISTER STATES COLOMBIA'S NEW MARKET BASED AGRICULTURAL IMPORT SYSTEM WILL BE INCLUDED IN FTA NEGOTIATIONS

Sensitive but unclassified -- please protect accordingly.

1. (SBU) Summary. On February 16, 2004, the Colombian government implemented a new import system that provides tariff reductions for importers that purchase domestic production of corn (both white and yellow), grain sorghum, rice, soybeans and cotton. The new system replaces the restrictive import licensing and domestic purchase requirements that were maintained for a wide range of agricultural products (including poultry, wheat, corn, barley, rice and oilseeds) under a WTO waiver that expired at the end of 2003. Trade Minister Botero acknowledged at a February 23 meeting that the new system was not fully trade liberalizing, but emphasized that this was as far as the GOC could go at this time. He added that the new system would be subject to discussion during the FTA negotiations. End Summary.

2. (SBU) Trade Minister Botero met with Ambassador Wood on February 23 to discuss Colombia's new import system for six agricultural products (white and yellow corn, grain sorghum, rice, soybeans and cotton) formerly protected by restrictive import licensing requirements. The voluntary system, implemented February 16, 2004, provides tariff reductions for importers that purchase local production and replaces a more restrictive system that required importers to demonstrate purchases of local production for a wide range of products (including poultry, wheat, corn, barley, rice and oilseeds) before they were authorized imports. Colombia was obligated to dismantle the previous system when the waiver it had in the WTO expired on December 31, 2003. Out-going Trade Vice Minister Claudia Uribe (soon to be Colombia's Ambassador to the WTO), Agriculture Vice Minister Andres Arias, Lead FTA Negotiator Amb. Hernando Jose Gomez and Ag negotiator Ricardo Torres also participated in the meeting. AGATT and Econcouns accompanied the Ambassador.

The New System

3. (SBU) On February 16, the Ministry of Commerce Industry and Tourism published decree 430 establishing the Public Mechanism for Administration of Agricultural Quotas. As explained by Vice Ministers Uribe and Arias, the new, voluntary system will establish tariff-rate quotas (TRQ's) based on historical import levels for white and yellow corn, grain sorghum, soybeans, rice and cotton. The TRQ levels will then be auctioned off at the existing Agricultural Commodities Board. The bids must state the ratio of imports to domestic purchases that will be made by each importer. Those offering to purchase the most domestic production will win the right to purchase the imports bid at a reduced tariff rate, determined by a mathematical algorithm based on the ratio of domestic purchases to imports offered. Imports beyond the TRQ are allowed, but face the general tariff rate (the Andean price band duty for corn, sorghum, and soybeans), and the MFN tariff rate for cotton (10 percent) and rice (80 percent - the tariff was raised from 20 percent in December 2003). The Vice Ministers also presented copies of the new decree as well as a GOC analysis of the new program (faxed to the desk).

GOC Rationale for New System

4. (SBU) Minister Botero defended the new system as WTO-consistent because it eliminated previous absorption requirements and lowered the number of products benefited from 75 to 6. He added that the new system was a transition to a more market-oriented approach, while acknowledging that the new system stopped short of free trade. He then stated flatly that it was the best the GOC could do at this juncture given the political realities it faced. Botero and Vice Minister Uribe both pointed out that the new system decreased the protection for some sectors, such as rice, where the previous combination of a small quota and restrictive import licensing requirements closed the sector to imports. They also added that the products protected were the most politically sensitive in agriculture. The new mechanism was

a way to bring these protected sectors partially into the free market and thus prepare them for eventual free trade under an FTA.

The system is open for negotiation under the FTA

15. (SBU) The Ambassador stated that we would review the new GOC policy, but noted that upon initial inspection it seemed that the GOC had created a new protective mechanism to replace a more restrictive one that had expired. While noting that reducing the universe of items covered by the new system from 75 to 6 was indeed a positive step, the six remained protected and we had some questions about the WTO consistency of the new program. The Ambassador added that taking such a measure, as well as increasing certain agricultural tariffs in late 2003, did not send a positive message about Colombia's willingness to open its markets on the eve of our FTA negotiations.

16. (SBU) Minister Botero explained that he had requested this meeting to establish Colombia's good faith as a negotiating partner. His intent was to explain the new system and highlight that it was a transitional measure aimed at introducing the market into previously protected areas. Botero repeated on several occasions that the new system was open to negotiation during FTA talks. He added that the FTA talks would provide him the political cover to dismantle the protection that these sectors currently enjoyed. In a negotiation, he would be able to open up these sectors by balancing those concessions with benefits gained. Botero reiterated his personal commitment to liberalizing trade and underscored that the negotiating table would give him the political legitimacy to open up the Colombian economy.

17. (SBU) Comment. The political pressures Botero mentioned are real. Both he and Vice Minister Uribe emphasized repeatedly that this was not a carefully planned move to raise protection on the eve of negotiations, but an effort to open up the heavily protected agricultural sector as much as the political atmosphere would bear. The new system is, in fact, an improvement over the previous restrictive mechanism that expired. Botero's commitment to discuss this issue at the negotiating table is real, as is the assertion that negotiations provide him political cover to do so. End Comment.
WOOD